



## 7. Appendix B: Market & Real Estate Economics

### Introduction

The District is experiencing a high demand for housing that continues to outstrip supply. The diverse residential market, which includes young professionals and government workers as well as empty nesters and retirees, is particularly attracted to waterfront and downtown locations. There is a great opportunity to combine this residential demand with a parallel demand for a range of amenities for public enjoyment including boating activities, outdoor markets, water-related restaurants, cafes, and retail, and cultural and civic institutions. The income mix in the Southwest is one of the most diverse in the District, and maintaining such a mix in new developments will be a key factor in ensuring maximum market penetration and absorption.

This section analyzes this opportunity for development in the Southwest from the perspective of the market and existing land ownership patterns.

### Assessment of Existing Conditions

#### Publicly Owned Land

All parcels along the Washington Channel within the project area are publicly owned. As seen on the Land Ownership Diagram (see page 4-4), the land and riparian rights underlying the Fish Market and the Washington Marina are owned by the federal government and managed by DHCD; the RLA Revitalization Corporation (RLARC) owns the land underlying the businesses from the Capital Yacht Club south to the Spirit Cruise Pier; the National Park Service owns the 10th Street Overlook; and the District owns Water Street and Maine Avenue.

#### Existing Businesses

There are a number of existing commercial uses on the Southwest Waterfront. The summary below describes the use, ownership, and, if relevant, the building square footage and land area for each business along the Waterfront.

#### *The Washington Marina*

DHCD manages the Washington Marina property, which is owned by the federal government. The Washington Marina, located just south of the Tidal Gates and the Mandarin Hotel, supplies mooring for over 100 small crafts and operates a small boat berthing, repair, and sales operation at the facility.

#### *The Municipal Fish Wharf*

The Fish Wharf is located just south of the Case Bridge and the Washington Marina, and across from the 10th Street Overlook. Currently, the Fish Wharf consists of two piers, surrounded on all sides by five floating barges to create a Fish Market on the water. Five different families own the Fish Wharf fish barges. Each family leases the parking lot area and pier space from DHCD.

#### *The Capital Yacht Club*

Located just south of the Fish Wharf is the Capital Yacht Club, which has 86 private slips and a clubhouse and bar for its members. The Yacht Club leases its land from the RLARC, and holds a sub-lease for Le Rivage, a restaurant on the second floor of the Yacht Club's clubhouse. In addition to serving its members with its facilities, the Capital Yacht Club provides the community with free meeting space on a regular basis.

The Yacht Club has 76 below-grade parking spaces for members and 40 above grade parking spaces, which are shared with La Rivage. The existing buildable land area for the Capital Yacht Club 9,744 square feet, and the building on the site is 9,743 square feet.

#### *Phillips Flagship*

Phillips Flagship leases the land just south of the Capital Yacht Club from the RLARC, where it operates one of the most successful restaurants in the District. The large seafood restaurant has a 53,000 square foot deck site, a 44,000 square foot building, and a 21,000 square foot surface parking lot as well as a 50,000 square foot below-grade parking garage. Phillips attracts a number of tour groups to the Southwest for lunch and dinner.

#### *Hogates*

Hogates, once a large seafood restaurant adjacent to Phillips, went out of business in October 2001. Like its neighbor Phillips, Hogates

relied heavily on the tourism industry. NCRC acquired the leasehold to the former Hogates site from the Bank of America Trust in September 2002. The 43,000 square foot building, located in between Phillips and Zanzibar, is built on a 58,000 square foot deck site, and has a 43,000 square feet of surface parking and a 112,000 square foot below-grade parking garage.

#### *Zanzibar*

Zanzibar is a large international nightclub that serves over 1,000 people on weekend nights. Zanzibar leases its property and 20,000 square foot building from Brookland Enterprises, which leases from the RLARC. Zanzibar is built on a 24,000 square foot parcel located south of Hogates.

#### *The Channel Inn*

The Channel Inn is a 65,000 square foot, 100-room hotel with a ground-floor restaurant. The Channel Inn offers mid-range priced rooms and a restaurant that serves hotel clientele and locals. The Channel Inn has 160 below grade parking spaces and 90 surface parking spaces. The Channel Inn is built on a 51,000 square foot parcel that is leased from the RLARC.

#### *The Gangplank Marina*

The Gangplank Marina is now owned by NCRC, which acquired the leasehold with the District in June 2001. The Gangplank Marina has 306 slips that include 100 live-aboards as well as commercial and recreational boaters. The Gangplank Marina's 92,000 square foot parcel is located south of the Channel Inn, at the curve of Maine Avenue into M Street. There is a small office structure on the site, which is 8,360 square feet. The Gangplank also leases space to the Odyssey Cruise Ship and Sequoia, the former Presidential yacht. A new restaurant, Cantina Marina, will open in March 2003.

#### *Washington Boatlines*

Directly south of the Gangplank Marina is Spirit Cruises. Washington Boatlines leases the land and pier from the RLARC and subleases the improvements to Spirit Cruises. The site consists of a 36,000 square foot parking lot, a 21,000 square foot building site, and a 24,000 square foot pier.

**DRAFT****Existing Residential**

There is a substantial residential neighborhood abutting the project area on the south end. Three residential developments are located adjacent to the cruise line operations: the Tiber Island Homes Cooperative, the Tiber Island Condominiums, and the Harbor Square Homes. These 8-10 story buildings form a residential enclave between the Washington Channel and M Street. The Tiber Island Homes have 347 units; the Tiber Island Condos have 60 units; and the Harbor Square Homes have over 400 units.

Additional residential developments in the Southwest neighborhood include the recently developed Capitol Square Townhomes near the 10th Street Overlook, Waterside Towers on 6th Street, Town Square Towers on 7th Street, and Marina View Towers behind Arena Stage.

Overall, the value of owner-occupied, single-family homes in the Southwest is above the citywide average. In 1998, the median value for these homes was \$185,000, compared to the citywide median value of \$150,000. Houses valued over \$400,000 make up only 4 percent of Southwest homes; citywide, these houses make up 20 percent of homes.

**Existing Cultural and Non-Profit Institutions**

Cultural assets to the Southwest neighborhood include its numerous churches, Southeastern University, Arena Stage, and the D.C. Library's Southwest Branch. St. Augustine's Church is located within the study area, at the meeting of M Street and Maine Avenue, adjacent to the Tiber Island residential area. St. Augustine's provides the community with public meeting and gathering space and has regular church services. The church building is approximately 18,000 square feet, and includes a large congregation hall, a downstairs meeting space, smaller classrooms, and a kitchen facility.

**Regulatory Framework****Existing Zoning**

Currently, the entire study area is zoned W1, which allows for a commercial floor area ratio (FAR) of 1.0 and a residential FAR of 2.5. The only exception to the W1 zoning within the site is the large parking lot on the Washington Boatlines parcel, which was re-zoned in 1996 for zero FAR.

The greater Southwest neighborhood, however, has an unusual diversity of zoning regulations. Much of the greater Southwest was rezoned during the Urban Renewal process in the 1950s and 1960s, and the current zoning regulations reflect that process. Instead of large tracts of land zoned for a single use and height, the zoning in the Southwest varies parcel by parcel, which creates the mix of high and low buildings uniquely characteristic of the Southwest.

**Affordable Housing Legislation**

Recent DC legislation provides significant tax abatements for residential developers providing mixed-income housing with at least 10 percent of housing units occupied by households earning no more than 80 percent of the area median income (AMI) - \$68,480 for a family of four. Based on the new legislation, a 75 percent tax abatement of property tax for 10 years would be allowed for projects in housing priority areas. Even higher levels of tax abatement are available for developments in high housing cost neighborhoods when units are made affordable to lower income households.

Eligible projects will include those with 5 percent of the units affordable to households earning 80 percent or less of AMI, and 10 percent of units affordable to households earning 60 percent or less of AMI. A tax abatement of 100 percent of property tax for 10 years is allowed when, in addition to the requirements for affordable units required to qualify for the 75 percent abatement, an additional 5 percent of the units are affordable to households earning 30 percent or less of AMI. All affordability requirements must be maintained for 20 years. The Development Plan for the Southwest Waterfront assumes that 20 percent of the units built will be affordable for families earning up to 80 percent of the area median income.

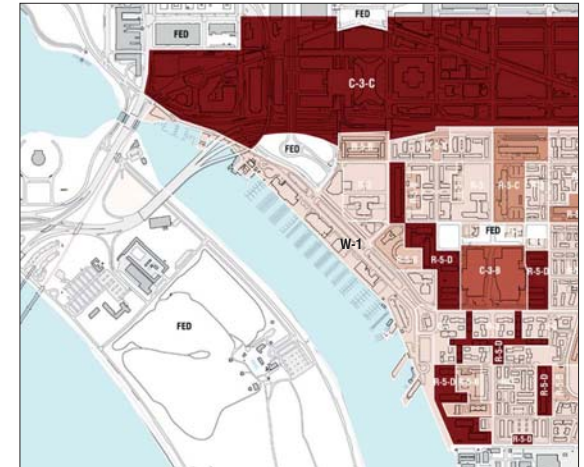


FIGURE 7.B1  
*Existing Zoning Diagram (darker tone indicates higher allowable densities)*

**DRAFT****Current Market Conditions****Residential Market**

Over the past 3-5 years, the District has experienced an increasingly high demand for housing that has outstripped supply by 5,000-6,000 units annually. If current growth continues, there will be over one million additional people living in the D.C. metropolitan area over the next 20 years.

As is the trend in many cities across the country, the move downtown, or into the District, is being made primarily by empty nesters-people in their 40s and 50s who are no longer supporting their children, and by young people. These populations do not heavily tax the resources of a City, but the rapid increase in population does contribute to increased congestion of roadways and services.

The current residential character of the Southwest is one of small communities that were created by and are now reinforced by clustered developments. Residential building clusters in the Southwest are spread out and vary in height, which maximize views in the neighborhood. Amenities for the community in the neighborhood are lacking, and additional retail, dining, and neighborhood shopping options would significantly enhance the market for new housing.

Based on recent sales and existing residential data, there is a market in the Southwest for both rentable and for sale units. The income mix in the Southwest is one of the more diverse in the District, and maintaining such a mix in new residential developments in the community will be important for maximum market penetration and absorption.

Compared to a District neighborhood such as Dupont Circle, the Southwest is not yet a proven market for residential development. However, this is rapidly changing, as is evident by the new Capitol Square Townhomes, which exceeded initial asking prices of \$200,000-\$300,000 and sold, in many cases, for \$400,000-\$500,000.

Currently, the proximity to the waterfront does not contribute markedly to the residential values in the Southwest neighborhood. However, if the waterfront were improved, it would undoubtedly have a substantial affect on residential values in the area.

**Office**

The Washington D.C. office inventory has not changed materially since 1993. Compared to national trends, the office market in the District has remained remarkably strong since September 11th. Demand continues to be strongest in the District for large blocks of space that can be developed into offices for government contractors or for the government itself. There are a number of large office development areas near the Southwest Waterfront, including the development planned at Waterside Mall, the Navy Yard, the Southeast Federal Center, and all along the growing M Street corridor. For all of these market-based reasons, the Southwest Waterfront is not ideally situated for traditional, large-scale office development. However, the site is suitable for smaller, boutique office uses recommended in the Development Plan.

**Retail**

The retail and entertainment industries in the District have felt the most immediate effects of September 11th. Overall, the District is a mixed market for retail. On Capitol Hill, the retail market has steadily improved for restaurants, but not for traditional retail.

Given the rising residential densities in the District, it is safe to assume that demand will be steady for neighborhood-focused retail in areas of growth. Restaurants, stores, entertainment venues and services that cater to the needs of their adjacent residential populations, as well as to wider audiences, will continue to be successful. Currently, there is a lack of community-based retail in the Southwest. Most of the restaurants serve the tourist population instead of the neighborhood, and Waterside Mall provides the only basic grocery and pharmacy provisions for the area. The current lack of neighborhood-focused retail will only be amplified by the increase in residential density proposed in the Development Plan, providing an excellent opportunity for targeted retail growth in the neighborhood.

**Hospitality**

With its close proximity to the Mall, there is a stable market in the Southwest for hotels. At the northern end of the project area, the expanded Mandarin Oriental Hotel will include over 400 luxury rooms, an upscale restaurant, a fitness center with an indoor pool and spa, and a large ballroom, all slated for completion in 2004. As the Southwest becomes a waterfront destination, the market for hotels will undoubtedly increase.

**Market Assumptions**

The following assumptions informed the residual land-value and construction cost calculations for the Southwest Waterfront Development Plan. These assumptions are based on market conditions in the District.

- Cap rate for all development is 9.5%
- Average rent for retail space is \$34/SF (year)
- Average rent for office space is \$35/SF (year)
- Average rent for market-rate residential units is \$27/SF
- Average for-sale price for market-rate residential is \$250/SF
- Average nightly room rate for hotel is \$140-\$195